

U.S. SECUR

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**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**



08029517

Information required of Brokers and Dealers  
Pursuant to Section 17 of the Securities Exchange Act of 1934 and Rule 17a-5  
Thereunder

8-35158

REPORT FOR THE PERIOD BEGINNING

01/01/07

AND ENDING

12/31/07

MM/DD/YY

MM/DD/YY

## A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

First Clearing, LLC

ADDRESS OF PRINCIPAL PLACE OF BUSINESS:

(Do not use P.O. Box No.)  
10750 Wheat First Drive, 4th Floor  
Glen Allen, VA 23060

(No. and Street)

Glen Allen

VA

23060

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Joseph Porter

(314) 955-3462

(Area Code -- Telephone No.)

## B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

(Name -- if individual, state last, first, middle name)

KPMG, LLP

1021 East Cary Street, Suite 2000

Richmond

VA

23219

(ADDRESS)

Number and Street

City

State

Zip Code

CHECK ONE:

☒

Certified Public Accountant

☐

Public Accountant

☐

Accountant not resident in United States or any of its possessions.

PROCESSED

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\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

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3/24



**KPMG LLP**  
Suite 2000  
1021 East Cary Street  
Richmond, VA 23219-4023

## **Independent Auditors' Report**

The Board of Directors  
First Clearing, LLC:

We have audited the accompanying statement of financial condition of First Clearing, LLC, (the Company), a wholly owned limited liability company of Wachovia Securities Financial Holdings, LLC, as of December 31, 2007, that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. This statement of financial condition is the responsibility of the Company's management. Our responsibility is to express an opinion on this statement of financial condition based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit of a statement of financial condition also includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement of financial condition presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of First Clearing, LLC as of December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

**KPMG LLP**

February 22, 2008

**FIRST CLEARING, LLC**  
(A Wholly Owned Limited Liability Company of  
Wachovia Securities Financial Holdings, LLC)

Statement of Financial Condition

December 31, 2007

(In thousands)

**Assets**

Cash and cash equivalents	\$ 141,427
Cash segregated under federal and other regulations	412,548
Receivable from brokers, dealers and clearing organizations	1,871,435
Receivable from customers	4,841,742
Receivable from correspondent clearing firms	537,759
Securities owned, at fair value	33,735
Receivable from affiliates	10,001
Other assets	296,520
Total assets	<u>\$ 8,145,167</u>

**Liabilities and Member's Equity**

Short-term borrowings	\$ 1,009,966
Payable to brokers, dealers and clearing organizations	2,622,385
Payable to customers	2,886,818
Payable to correspondent clearing firms	201,342
Securities sold, not yet purchased, at fair value	12,983
Payable to affiliates	32,863
Accrued expenses and other liabilities	116,706
Total liabilities	<u>6,883,063</u>
Member's equity	<u>1,262,104</u>
Total liabilities and member's equity	<u>\$ 8,145,167</u>

See accompanying notes to Statement of Financial Condition.

**FIRST CLEARING, LLC**  
(A Wholly Owned Limited Liability Company of  
Wachovia Securities Financial Holdings, LLC)

Notes to Statement of Financial Condition

December 31, 2007

(Dollars in thousands, except where noted)

**(1) Organization and Basis of Presentation**

First Clearing, LLC (the Company) is a wholly owned limited liability company of Wachovia Securities Financial Holdings, LLC (WSFH), a majority-owned consolidated subsidiary of Wachovia Corporation (Wachovia). WSFH serves as the holding company for the retail brokerage and clearing businesses contributed by Wachovia and Prudential Financial, Inc. (Prudential) and is headquartered in Richmond, Virginia. Wachovia and Prudential own 62% and 38%, respectively, of WSFH. WSFH's principal operating subsidiaries are Wachovia Securities, LLC (WSLLC), the Company, and Wachovia Securities Financial Network, LLC (FINET).

The Company is registered as a broker-dealer with the Securities and Exchange Commission (SEC) and is a member of the Financial Industry Regulatory Authority (FINRA). The Company's primary activities are those of a clearing broker-dealer for WSLLC and FINET, and for unaffiliated correspondent broker-dealers. WSLLC and FINET introduce on a fully-disclosed basis substantially all of their customer transactions to the Company with whom it has correspondent relationships for clearance and depository services established in accordance with the terms and conditions of their respective clearance agreements.

The preparation of the Statement of Financial Condition in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Statement of Financial Condition. Actual results could differ from those estimates.

**(2) Summary of Significant Accounting Policies**

***Cash and Cash Equivalents***

The Company has defined cash equivalents as highly liquid investments, with original maturities of less than ninety days, that are not held for sale in the ordinary course of business.

***Securities Transactions***

Proprietary securities transactions in regular-way trades are recorded on the trade-date, as if they had settled. Customer securities transactions are recorded on a settlement date basis.

Securities owned and securities sold, not yet purchased are carried at fair value on a trade date basis.

Securities and commodities owned by customers, including those that collateralize margin or other similar transactions, are not reflected on the Statement of Financial Condition as the Company does not have title to these assets.

***Securities Lending Activities***

Securities borrowed and securities loaned are generally reported as collateralized financing transactions and are recorded in the accompanying Statement of Financial Condition at the amount

**FIRST CLEARING, LLC**  
(A Wholly Owned Limited Liability Company of  
Wachovia Securities Financial Holdings, LLC)

Notes to Statement of Financial Condition

December 31, 2007

(Dollars in thousands, except where noted)

of cash collateral advanced or received. Securities borrowed transactions require the Company to deposit cash or other collateral with the lender. With respect to securities loaned, the Company receives collateral in the form of cash in an amount generally in excess of the market value of securities loaned. The Company monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as necessary.

***Fair Value***

Cash and cash equivalents, securities owned, and securities sold, not yet purchased are carried at fair value.

Receivable from brokers, dealers, and clearing organizations, receivable from customers, receivable from correspondent clearing firms, receivable from affiliates, short-term borrowings, payable to brokers, dealers and clearing organizations, payable to customers, payable to correspondent clearing firms, and payable to affiliates are recorded at amounts that approximate fair value. The fair value of these items is not materially sensitive to shifts in market interest rates because of the limited term to maturity of many of these instruments and/or their variable interest rates.

***Income Taxes***

The Company is a single member limited liability company and is treated as a disregarded entity pursuant to Treasury Regulation Section 301.7701-3 for federal income tax purposes. Generally, disregarded entities are not subject to entity-level federal or state income taxation and, as such, the Company is not required to provide for income taxes under Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*. The Company's taxable income primarily becomes taxable to the respective members of WSFH due to the treatment of WSFH as a non-taxable flow-through partnership entity for federal income tax purposes. However, certain states and foreign jurisdictions do subject the Company to entity-level taxation as a single member limited liability company; therefore, the related state and foreign taxes have been provided on a small portion of the Company's taxable income.

**(3) Cash Segregated Under Federal and Other Regulations**

At December 31, 2007, the Company was required to segregate \$365,451 of cash in a special reserve bank account for the benefit of customers under SEC Rule 15c3-3 (the Customer Protection Rule) and the Company had \$300,354 on deposit in this account. On January 3, 2008, the Company deposited an additional \$264,000 into the special reserve bank account for the exclusive benefit of customers.

The Company performs the computation for assets in the proprietary accounts of its introducing brokers (PAIB) in accordance with the customer reserve computation set forth in the Customer Protection Rule, so as to enable introducing brokers to include PAIB assets as allowable assets in their net capital computations, to the extent allowable under SEC Rule 15c3-1 (the Net Capital Rule). Based on that computation as of December 31, 2007, the Company was required to segregate \$108,170 of cash in a special reserve bank account for the exclusive benefit of PAIB and the Company had \$112,194 on deposit in this account.

**FIRST CLEARING, LLC**  
(A Wholly Owned Limited Liability Company of  
Wachovia Securities Financial Holdings, LLC)

Notes to Statement of Financial Condition

December 31, 2007

(Dollars in thousands, except where noted)

**(4) Collateral**

The Company accepts securities as collateral for securities borrowed agreements and for credit extended to customers which it is permitted to repledge or sell. At December 31, 2007, the fair value of this collateral approximated \$7,600,000, of which approximately \$2,469,000 had been repledged by the Company. The collateral is received primarily from other broker-dealers and customers and is used by the Company primarily to enter into securities lending agreements and to effectuate short sales made by customers.

**(5) Receivable from and Payable to Brokers, Dealers and Clearing Organizations**

Receivable from and payable to brokers, dealers and clearing organizations consist of the following at December 31, 2007:

*Receivable from brokers, dealers and clearing organizations:*

Securities failed to deliver	\$ 89,743
Deposits paid for securities borrowed	1,747,198
Other	34,494
	<u>\$ 1,871,435</u>

*Payable to brokers, dealers and clearing organizations:*

Securities failed to receive	\$ 118,958
Deposits received for securities loaned	2,424,241
Other	79,186
	<u>\$ 2,622,385</u>

**(6) Receivable from and Payable to Customers**

Receivable from and payable to customers represent balances arising in connection with normal cash and margin transactions. At December 31, 2007, receivable from customers consists primarily of margin loans to customers of \$4,088,011, and payable to customers consists primarily of \$2,168,924 of customer free credits.

The Company has established an allowance for doubtful accounts to offset amounts deemed uncollectible from unsecured customer balances receivable. At December 31, 2007, receivable from customers is reported net of the allowance for doubtful accounts of \$11,457.

**FIRST CLEARING, LLC**  
(A Wholly Owned Limited Liability Company of  
Wachovia Securities Financial Holdings, LLC)

Notes to Statement of Financial Condition

December 31, 2007

(Dollars in thousands, except where noted)

**(7) Securities Owned and Securities Sold, Not Yet Purchased**

At December 31, 2007, securities owned and securities sold, not yet purchased consist of the following, at fair value:

	<u>Securities owned</u>	<u>Securities sold, not yet purchased</u>
Certificates of deposit and commercial paper	\$ —	\$ 113
U.S. government and agency obligations	22,692	8,808
State and municipal government obligations	366	329
Corporate obligations	160	52
Stocks and warrants	9,011	3,681
Other securities	1,506	—
Total	<u>\$ 33,735</u>	<u>\$ 12,983</u>

U.S. government obligations with a fair value of approximately \$13,920 at December 31, 2007 have been pledged as collateral for deposits with clearing organizations.

**(8) Short-Term Borrowings**

Short-term borrowings consist of the following at December 31, 2007:

	<u>Amount outstanding</u>
Drafts payable	\$ 609,966
Unsecured loans from financial institutions	400,000
Total	<u>\$ 1,009,966</u>

Drafts payable consist of non-interest bearing outstanding bank drafts. The amount of overdrafts due to related parties was \$239,247 at December 31, 2007.

At December 31, 2007, the Company had available \$1,770,000 in uncommitted unsecured lines of credit with various unaffiliated financial institutions, \$1,000,000 in uncommitted secured lines of credit with Wachovia Bank, N.A. and \$500,000 in uncommitted unsecured lines of credit with WSFH.

The entire line of credit from Wachovia Bank, N.A. and \$1,145,000 of the lines of credit from unaffiliated financial institutions are also available to WSLLC. In addition, \$675,000 of the lines of credit from unaffiliated financial institutions is available to WSFH.

At December 31, 2007, the Company had no balance outstanding on lines of credit with Wachovia Bank, N.A., and \$400,000 outstanding on the unaffiliated lines of credit. Included in the overdrafts due to related parties of \$239,247 is a \$179,900 outstanding balance on lines of credit with WSFH. WSLLC and WSFH had no balance outstanding on the above lines of credit.

**FIRST CLEARING, LLC**  
(A Wholly Owned Limited Liability Company of  
Wachovia Securities Financial Holdings, LLC)

Notes to Statement of Financial Condition

December 31, 2007

(Dollars in thousands, except where noted)

Unsecured loans generally bear interest at a rate that varies with the federal funds rate and are payable on demand. For the year ended December 31, 2007, the weighted average interest rate on these loans outstanding was 5.31%.

**(9) Subordinated Borrowings**

The Company has a \$250,000 subordinated revolving line of credit with Wachovia. The line bears interest at a rate to be negotiated at the time of each advance, and all advances are due to be repaid no later than December 19, 2013. Borrowings under this subordinated line are allowable in computing net capital under the SEC's Net Capital Rule. To the extent these borrowings are required for the Company's continued compliance with minimum net capital requirements, they may not be repaid. There were no borrowings on this line of credit during 2007.

**(10) Net Capital**

The Company is subject to the Net Capital Rule, which requires the maintenance of minimum net capital, as defined. The Company has elected to use the alternative method, permitted by the Net Capital Rule, which requires that the Company maintain minimum net capital, as defined, equal to the greater of \$1,500 or 2% of aggregate debit balances arising from customer transactions, as defined. At December 31, 2007, the Company had net capital of \$671,762 which was \$571,451 in excess of its required minimum net capital of \$100,311. At December 31, 2007 the Company's net capital balance was 13.39% of aggregate debit balances.

**(11) Retirement and Stock Compensation Plans**

***Retirement Plans***

Substantially all employees with one year of service are eligible for participation in the matched savings plan of Wachovia. This plan permits eligible employees to contribute up to 30% of eligible compensation, as defined. Annually, on approval of the Wachovia Board of Directors, employee contributions to the matched savings plan may be matched up to 6% of the employee's eligible compensation, as defined. A 6% matching level was in place at December 31, 2007.

In addition, Wachovia provides postretirement benefits, principally health care and long term disability, to employees of the Company and their beneficiaries and dependents. Wachovia allocates expense to the Company for postretirement benefits based on employee compensation and the total cost incurred with respect to postretirement benefits on a consolidated basis. The actuarial and plan asset information pertaining to the employees of the Company is not segregated in Wachovia's postretirement plan calculation and is therefore not available.

***Stock Compensation Plans***

Wachovia has stock option plans under which incentive and nonqualified stock options may be granted periodically to certain employees of the Company. Restricted stock awards may also be granted under these plans.



**FIRST CLEARING, LLC**  
(A Wholly Owned Limited Liability Company of  
Wachovia Securities Financial Holdings, LLC)

Notes to Statement of Financial Condition

December 31, 2007

(Dollars in thousands, except where noted)

**(12) Transactions with Affiliated Parties**

***Services Provided by Affiliates***

The Company has entered into service agreements with Wachovia under which the Company receives certain technology and systems, operations and administrative support services from Wachovia.

The Company has other agreements with Wachovia and its affiliates for directly billed general and administration services.

The Company contracts consultants and temporary employees through an agency that is a subsidiary of Wachovia.

***Clearing Services***

The Company provides retail clearing services for its affiliates, WSLLC and FINET. The Company collects revenues from customers on behalf of WSLLC and FINET from which it deducts its retail clearing service fees. At December 31, 2007, the Company owed \$104,204 to WSLLC and \$4,433 to FINET which are included in payable to correspondent clearing firms in the Statement of Financial Condition.

In conjunction with the retail clearing services provided to WSLLC and FINET, the Company rebates all interest income earned on margin balances of WSLLC and FINET retail customer relationships to WSLLC and FINET net of the interest expense incurred by the Company to finance those margin loans.

The Company has entered into a service agreement with Prudential Investment Management Services LLC (PIMS), a subsidiary of Prudential, under which PIMS provides execution, clearance and other services to the Company on behalf of WSLLC, FINET and unaffiliated correspondent broker-dealers, with respect to investment companies available through certain of their mutual fund wrap account products and programs, and transactions in shares of open-end investment companies. Pursuant to this agreement, the Company receives fees from PIMS based on invested customer balances. At December 31, 2007, fees earned but not received of \$32,528 are included in other assets, and expenses incurred but not yet paid of \$4,315 are included in accrued expenses and other liabilities in the Statement of Financial Condition.

***Money Market and Bank Sweep***

The Company earned fees from Prudential for the year ended December 31, 2007 for servicing customers invested in Prudential sponsored money market funds and for certain asset management product related administrative services.

The Company has arrangements with Evergreen Investment Management Co. (Evergreen), an affiliated mutual fund company, in which it receives compensation for servicing customers invested in Evergreen money market funds. Included in other assets is \$6,315 which represents a receivable from Evergreen related to settlement of overnight deposit balances.

**FIRST CLEARING, LLC**  
(A Wholly Owned Limited Liability Company of  
Wachovia Securities Financial Holdings, LLC)

Notes to Statement of Financial Condition

December 31, 2007

(Dollars in thousands, except where noted)

The Company has an arrangement with Wachovia Bank, N.A. under which it offers a bank deposit product to which customers may elect to have their available cash balances swept into overnight deposit accounts.

***Other***

The Company has a promissory note receivable from Everen Capital Corporation, a subsidiary of Wachovia and indirect parent of WSFH, for \$10,000 which is included in receivable from affiliates in the Statement of Financial Condition. The note is due on April 30, 2008 and carries an interest rate of 5.00 % that is payable monthly.

At December 31, 2007, the Company had a net payable balance to Wachovia and its affiliates totaling \$32,863.

The transactions with affiliates described above and the effect thereof on the accompanying Statement of Financial Condition may not necessarily be indicative of the effect that might have resulted from dealing with non-affiliated parties.

**(13) Dividends**

Pursuant to the Retail Brokerage Formation Agreement (the Agreement) by and between Wachovia and Prudential (the Members), WSFH, the Company's parent, is obligated to distribute to the Members 70% of its consolidated net earnings each quarter, determined in accordance with accounting principles generally accepted in the United States of America, before deduction for any expense related to the amortization of intangible assets (Distributable Cash). Since the amount of Distributable Cash retained by WSFH has now exceeded \$263 million, the Members may now elect to receive up to 30% additional distributions as defined in the Agreement.

The Company's earnings constitute a material portion of Distributable Cash.

The Company's ability to make capital and certain other distributions is subject to the rules and regulations of the SEC, FINRA and various other regulatory agencies, exchanges and clearing organizations.

**(14) Financial Instruments with off-balance sheet risk**

In the normal course of business, the Company's customer activities involve the execution, settlement and financing of various customer securities transactions. These activities may expose the Company to off-balance-sheet risk in the event the customer or other broker is unable to fulfill its contracted obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss.

The Company's customer securities activities are transacted on either a cash or margin basis. In margin transactions, the Company extends credit to its customers, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the customers' accounts. In connection with these activities, the Company executes and clears customer transactions involving the sale of securities not yet purchased, substantially all of which are transacted on a margin basis

**FIRST CLEARING, LLC**  
(A Wholly Owned Limited Liability Company of  
Wachovia Securities Financial Holdings, LLC)

Notes to Statement of Financial Condition

December 31, 2007

(Dollars in thousands, except where noted)

subject to individual exchange regulations. Such transactions may expose the Company to significant off-balance-sheet risk in the event margin requirements are not sufficient to fully cover losses that customers may incur. In the event the customer fails to satisfy its obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices to fulfill the customer's obligations. The Company seeks to control the risks associated with its customer activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels daily and, pursuant to such guidelines, requires the customer to deposit additional collateral or to reduce positions when necessary.

The Company's customer financing and securities settlement activities require the Company to pledge customer securities as collateral in support of various secured financing sources such as securities loaned. In the event the counterparty is unable to meet its contractual obligation to return customer securities pledged as collateral, the Company may be exposed to the risk of acquiring the securities at prevailing market prices in order to satisfy its customer obligations. The Company controls this risk by monitoring the market value of securities pledged on a daily basis and by requiring adjustments of collateral levels in the event of excess market exposure. In addition, the Company establishes credit limits for such activities and monitors compliance on a daily basis.

**(15) Commitments and Contingent Liabilities**

***Litigation***

The Company has been named as a defendant in various legal actions arising from its normal business activities in which damages in various amounts are claimed. Although the amount of any ultimate liability with respect to such matters cannot be determined, in the opinion of management, based on the opinions of counsel, any such liability will not have a material impact on the Company's financial statements. Wachovia and Prudential have agreed to indemnify the Company for any losses due to a claim against the Company which arises from an action, omission to act, condition or event that first occurred prior to July 1, 2003 whether or not such action, omission, condition or event continues after July 1, 2003. The Company will not, however, be indemnified by Wachovia or Prudential for a claim that arises from any such action, omission, condition or event to the extent it continues to occur following the 270<sup>th</sup> day after July 1, 2003.

***Other Contingencies***

Some contracts that the Company enters into in the normal course of business include indemnification provisions that obligate the Company to make payments to the counterparty or others in the event certain events occur. These contingencies generally relate to changes in the value of underlying assets, liabilities, or equity securities or upon the occurrence of events, such as an adverse litigation judgment or an adverse interpretation of the tax law. The indemnification clauses are often standard contractual terms and were entered into in the normal course of business based on an assessment that the risk of loss would be remote. Since there are no stated or notional amounts included in the indemnification clauses and the contingencies triggering the obligation to indemnify have not occurred and are not expected to occur, the Company is not able to estimate the maximum potential amount of future payments under these indemnification clauses. There are no

**FIRST CLEARING, LLC**  
(A Wholly Owned Limited Liability Company of  
Wachovia Securities Financial Holdings, LLC)

Notes to Statement of Financial Condition

December 31, 2007

(Dollars in thousands, except where noted)

amounts reflected on the Financial Statements as of December 31, 2007, related to these indemnifications.

**(16) Subsequent Event – Business Combination**

On May 31, 2007, Wachovia announced the signing of a definitive merger agreement with A.G. Edwards, Inc., a retail brokerage firm headquartered in St. Louis, Missouri. The merger was completed on October 1, 2007, and the A.G. Edwards retail brokerage business was contributed to WSLLC, a wholly-owned subsidiary of WSFH, on January 1, 2008. The combined retail brokerage organization will be headquartered in St Louis, Missouri. The integration activity is expected to continue through 2009.

**END**